

NCUA LETTER TO CREDIT UNIONS

**NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314**

DATE: October 2009 LETTER NO: 09-CU-20

TO: Federally Insured Credit Unions

SUBJ: Premium Assessments

**ENCL: (1) NCUSIF Stress Testing Results
(2) Corporate Credit Union Reserve**

Dear Board of Directors:

On September 24, 2009, the NCUA Board (Board) took action to maintain the strength of the National Credit Union Share Insurance Fund (NCUSIF) and begin the repayment of the Treasury borrowing for the corporate credit union stabilization plan. As projected in prior guidance to credit unions, the resulting combined premium collection to credit unions is 15 basis points of insured shares. The invoice for the assessment will be sent in the fourth quarter of 2009 with payment due within 30 days of the invoice date.

The Board action is comprised of two separate parts. First, the Board acted to authorize the billing and collection of the previously announced assessment to return the NCUSIF's equity to 0.30 percent of insured shares. Second, the Board passed a new assessment for repayment of a portion of the funds borrowed by the Corporate Credit Union Stabilization Fund (Stabilization Fund).

The Board is aware that assessments, especially during an adverse business cycle, are not desirable. In making the decision, the Board's objective was to balance the need to minimize the current additional pressure on earnings against the long-term health of the NCUSIF and the future earnings burden on credit unions by not acting now. The decision made by the Board will strengthen the NCUSIF while also preventing credit unions from having to record much higher assessments in future periods. NCUA is reminding examiners to factor out the adverse impact of the premium when evaluating and rating credit union earnings performance.

The Board considered many factors in the decision making process including the current economic climate, current condition of the credit union system, and the results from stress testing the NCUSIF. In the stress testing process, staff prepared several

scenarios of financial and economic adversity to assess the adequacy of the NCUSIF. Though the testing shows the NCUSIF covering a very large portion of the scenarios, all test results point to a higher level of projected stress on the NCUSIF over the next couple of years. It is important to note the scenarios don't represent what NCUA projects will occur, but rather models high levels of volatility to assist NCUA with contingency planning and establishing reserve levels. A summary of the test results is enclosed.

NCUSIF Premium

The NCUSIF premium is 0.1027 percent of federally insured shares. Since the start of the recession beginning in December 2007, the Board has clearly communicated a desire to maintain the NCUSIF at the normal operating level of 1.30 percent. Updated analysis of the NCUSIF's risk levels point to a higher number of potential credit union failures over the next fifteen months. The continued severe problems in the housing sector contribute to the possibility for a higher level of losses for the NCUSIF through at least 2010. Maintaining the NCUSIF at 1.30 percent will promote confidence in the NCUSIF and give NCUA maximum flexibility to address troubled institutions.

The premium will be calculated on the new \$250,000 share insurance coverage limit per the Helping Families Save Their Homes Act of 2009. Credit unions with less than \$50 million in assets as of December 31, 2008 will be assessed on the \$250,000 insured shares level as of December 31, 2008. Credit unions with \$50 million or more in assets will be assessed on the insured shares level as of June 30, 2009. Credit unions with \$50 million or more in assets will also receive their normal, semiannual NCUSIF capitalization deposit adjustment notice based on the June 30, 2009 report of insured shares.

Stabilization Fund

The purpose of the Stabilization Fund is to allow the assessment of credit unions, over multiple years, to accrue funds necessary to repay the Treasury for borrowings related to corporate credit union stabilization actions. At the initiation of the Stabilization Fund, a liability of \$5.98 billion for the guarantee of uninsured shares and debt in corporate credit unions was recorded and the Stabilization Fund borrowed \$1 billion to assume the capital note the NCUSIF provided to U.S. Central Federal Credit Union. The liability for the uninsured share and debt guarantee was recently reevaluated and will increase to \$6.33 billion.

As part of the process to update the recorded corporate stabilization action liability, NCUA recently updated both the analysis conducted by staff and the PIMCO analysis of the distressed mortgage backed assets. The result was a \$350 million increase to the liability. The process for calculating the reserve and the adjustment at this cycle is further explained in the enclosed corporate credit union reserve summary.

The current assessment associated with the partial repayment of Treasury borrowings is 0.0473 percent of June 30, 2009 insured shares for all credit unions, calculated at the \$250,000 level. This assessment allows for the repayment of \$310 million of the Stabilization Fund's borrowing.

Conclusion

The NCUA Board remains fully committed to the previously announced goal to “*minimize the adverse impact on natural person credit unions and their members so credit unions remain a vibrant and healthy sector of the U.S. financial system.*” This level of assessment will maintain an adequate NCUSIF and begin the process of repayment of the Treasury borrowing related to corporate stabilization.

If you have any questions related to this Letter, you should contact your regional office, district examiner, or appropriate state supervisory authority.

Sincerely,

/s/

Debbie Matz
Chairman